

Chapter Eleven

Current Planning for Retirement in Australia

Introduction

11.1 This chapter initially examines current evidence on when, why and how individuals plan for retirement in Australia, and considers the importance of early preparation for retirement, well in advance of withdrawal from the labour force. The chapter also considers current financial understanding and education levels in Australia and means by which they might be improved.

Different individuals' planning for retirement

11.2 In its written submission, IFSA cited the results of its 2001 research project *Retirement Savings – Desires and Drivers* which explored when and why, and to a lesser extent how, people aged over 45 prepare financially for retirement. IFSA found that:

- a) Many pre-retirees do not have a clear idea of when they will retire;
- b) The median age at which people consciously commenced to save for retirement is 45, while the mean age is 36; and
- c) Retirement is somewhat unplanned for many people.

11.3 Of those people actually planning for retirement (the minority), IFSA found that they tended to display the following characteristics:

- They were looking forward to retirement because of lifestyle aspirations;
- They were encouraged by their employer to pay attention to their financial position in retirement through education by the company's superannuation fund;
- They were in a very favourable superannuation scheme or one that otherwise encouraged high employee contributions;
- They feared ill-health, redundancy or forced early retirement;
- They had previously suffered a business failure or other severe denting of life savings plan;
- They were women for whom divorce or death of a spouse had triggered retirement planning;
- They were people who had come into a sudden inheritance and had realised that it was the only nest egg they had in retirement;
- They were natural accumulators of wealth; and

- They were parents who had realised that with their children leaving home, they had additional disposable income available for savings.

11.4 IFSA also found agreement with the statement that *saving or investing for my retirement is important to me*, and strong disagreement with the statement *I live for today and don't worry about saving money*. However, despite these findings, IFSA found that people neither agreed nor disagreed with the statement *I feel confident I will have enough money in retirement to provide a good standard of living*.¹

11.5 FaCS also cited in its submission the results of its survey entitled *Workforce Circumstances and Retirement Attitudes of Older Australians* in relation to financial planning. It found that amongst people aged 45-69 who had ceased work at a time they had chosen:

- 70 per cent had taken some financial planning steps prior to their retirement. The range of planning activities reported included consulting financial advisers, establishing a superannuation fund, drawing up a budget and/or starting to make financial investments; but
- 30 per cent had not taken any financial planning steps.

11.6 The Committee notes that FaCS indicated that these results applied to only a small sample group.²

The importance of early planning for retirement

11.7 Given the evidence on preparation for retirement summarised above, the Committee wishes to highlight evidence it received during the inquiry that planning for retirement should begin early, well in advance of retirement.

11.8 For example, in the hearing on 9 May 2003, Dr Parkinson from ARPA(SA) argued that financial planning for retirement should begin 20 years in advance. Similarly, Mr Shaw from the Association of Independent Retirees – Whyalla and District Branch made the comment:

I can remember at age 20, when working for BHP, having to make a choice as to whether or not I would join the superannuation fund. I had colleagues who were the same as me who said, 'I'd rather buy a car or go to the pub on a Friday night,' and opted out of joining the superannuation fund. Thinking back, it was probably one of the most important decisions I ever made in my life when I decided to begin to contribute to a superannuation fund at age 20. If we can impart that notion to young people today at that same age we would do them an enormous service for the future.³

1 *Submission 27*, IFSA, pp. 1-2. See also *Committee Hansard*, 5 May 2003, p. 57.

2 *Submission 38*, FaCS, p. 12.

3 *Committee Hansard*, 9 May 2003, p. 199.

11.9 The Committee also notes the submission of Mr Kemp that the government should be reinforcing to the young and old alike the importance of early planning for retirement.⁴

Financial education standards in Australia

11.10 During the inquiry, various parties raised the issue of financial education standards in Australia and community understanding of the superannuation system when planning for retirement.

11.11 For example, in its written submission, ACCI argued that the government has an important role to play in ensuring that the community understands that the age pension and the SG go only part of the way towards providing an adequate income in retirement and that it is essential for individuals to make additional arrangements to secure their own future.⁵

11.12 This position was supported by representatives of the ABA. In evidence to the Committee on 5 May 2003, Mr Connolly representing the ABA observed that the whole issue of information and education is critical. Accordingly, he argued that there is a case for establishing, for a limited time, a small committee, working through Treasury perhaps, which could advise Ministers and Government Departments on improving consumers' understanding of superannuation.⁶

11.13 A number of parties to the inquiry also referred to the \$28.7 million allocated to the Australian Taxation Office (ATO) in the 2002-03 Budget to undertake an extensive financial education campaign and to administer choice of superannuation under the amendments proposed in the Superannuation Legislation Amendment (Choice of Superannuation Funds) Bill 2002, currently in the Senate.

11.14 In its written submission, ASFA argued that the education campaign should go ahead, regardless of the status of the choice legislation in the Senate, and that additional funding should be provided to the ATO. ASFA noted a recent FPA survey that up to 30 per cent of employees can exercise choice of fund, a majority are able to exercise investment choice, and the vast majority of employees are able to decide on the destination of their superannuation balance when they retire, resign or are retrenched. Indeed, ASFA recommended that double the allocated \$28.7 million – \$52.8 million – be allocated to a comprehensive public education campaign over three years to be conducted by the ATO or by ASIC.⁷

11.15 In her evidence to the Committee on 5 May 2003, Ms Wolthuizen from the Australian Consumers' Association (ACA) also recommended that the \$28.7 million

4 *Submission 10*, Mr Kemp, p. 1. See also *Committee Hansard*, 9 May 2003, p. 218.

5 *Submission 41*, ACCI, p. 9.

6 *Committee Hansard*, 5 May 2003, p. 31.

7 *Submission 33*, ASFA, pp. 19-20. See also *Committee Hansard*, 5 May 2003, p. 40.

currently allocated for consumer education be spent, regardless of the outcome of choice of superannuation legislation currently before the Senate:

It is far better to spend the money now to try to bring up people's levels of understanding and comprehension, and then introduce super choice once we have a clearer sense that people will have the ability to manage it properly.⁸

11.16 Ms Wolthuizen also argued that the problem of better education should be addressed at all levels of government. She noted that ASIC is currently examining ways to introduce units into curricula at the primary and secondary level to boost levels of financial education. Beyond that, there is a role for general education campaigns run by either ASIC or the ATO. In addition, there is a role for government to look at increasing its expenditure and resources directed at providing individuals with independent advice.⁹

11.17 That said, Ms Wolthuizen indicated her belief that it is extremely unlikely that Australia will ever get to the point where people are going to have a very high level of understanding of superannuation products:

We could devote as many resources to [financial planning] as we do to other areas of life education, such as sex education, and we are never going to get the level of understanding that we would hope from Australian consumers which would put them in a situation where they could properly protect themselves against financial loss and make the best arrangements for their long-term financial security. As has been put to me, one of the best outcomes you can hope for from education is that you get a subsector of consumers who are so aware, vocal and good at self-advocacy that they can exert pressure on the industry. But we are never going to be in a position where you can expect that from the majority of the Australian population.¹⁰

11.18 This position was also expressed by a number of other parties to the inquiry. For example, in evidence to the Committee on 5 May 2003, Mr Negline from the ICA agreed that it is impractical to educate all Australians to a point where they could manage successfully their own superannuation, and drew an analogy with people's health:

You could say that about people's health, too, couldn't you? That if you could educate them all well enough, they wouldn't need a doctor?¹¹

11.19 Similarly, in response to a question from Senator Sherry whether education is sufficient to protect consumers, Ms McAlister from ASIC stated in the hearing on 8 May 2003:

8 *Committee Hansard*, 5 May 2003, p. 4.

9 *Committee Hansard*, 5 May 2003, p 5.

10 *Committee Hansard*, 5 May 2003, p. 7.

11 *Committee Hansard*, 5 May 2003, p. 97.

Education of itself would not be sufficient, no. I think it goes a long way. I guess a fundamental premise of the financial services regulatory regime at the moment is the informed consumer; that is a key plank. Obviously, having informed consumers is a very important plank, but of itself it is not enough. You can have a strong regulator, and you have to have clear and enforceable rules.¹²

12 *Committee Hansard*, 8 May 2003, p. 105.